

Michaud Calls for Full Goldman Sachs Investigation

Sunday, April 25 2010

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The SEC alleges false and materially misleading statements by the firm in the creating and marketing of ABACUS 2007-AC1, a collateralized debt obligation (CDO) backed by home mortgages. There were 25 total ABACUS CDOs created. The letter asks the SEC to investigate the remaining 24 ABACUS CDOs for similar fraud. It also asks that the SEC identify the extent to which AIG paid out on credit default swaps purchased by Goldman, and to ensure the taxpayers receive refunds on any AIG money received by Goldman on fraudulent premises.

“These financial schemes are representative of what is wrong with Wall Street,” said Michaud. “These deals almost took down the entire market and put the retirement savings of millions of American families unnecessarily at risk. A full investigation will help ensure that every aspect of these deals is brought to light. We need to figure out exactly what went wrong so that we can prevent it from ever happening again.”

The full text of the letter that Michaud and his colleagues sent today can be found below.

April 26, 2010

The Honorable Mary Schapiro

Chairwoman

U.S. Securities and Exchange Commission

100 F St. NE

Washington, DC 20549

Dear Chairwoman Schapiro:

Thank you for your continued efforts to restore the role of the Securities and Exchange Commission (SEC), “to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.” The SEC announcement of civil securities fraud charges against Goldman Sachs and Fabrice Tourre is welcome news to both investors and the taxpayers who bailed out Wall Street. The failure of the Bush administration to enforce these laws ultimately undermined the financial markets and contributed to the economic turmoil of the last three years.

As you know, the SEC complaint makes disturbing allegations of fraud against Goldman Sachs. The SEC has alleged that Goldman Sachs enticed investors into long positions in a synthetic collateralized debt obligation (CDO), while unbeknownst to investors the CDO was specifically designed by hedge fund manager John Paulson to generate losses for short positions taken by Paulson and Goldman Sachs's proprietary accounts. We are grateful that the SEC is seeking a court order for Goldman Sachs “to disgorge all illegal profits that they obtained as a result of their

fraudulent misconduct.” The U.S. taxpayer deserves nothing less.

The complaint is based on a single CDO known as ABACUS 2007-AC1. However, the ABACUS 2007-AC1 offering was part of a series of 25 such CDOs, all arranged by Goldman Sachs. It is not beyond the realm of comprehension that the 24 remaining ABACUS transactions included similar materially misleading statements to investors in order to protect Goldman’s internal proprietary bets, or other coveted counterparties like Mr. Paulson.

Seven of the ABACUS CDOs were guaranteed by credit default swaps from the American International Group (AIG). These seven AIG-insured CDOs contributed to billions of dollars in losses at AIG according to the New York Times.

Should any of these transactions be found to include fraudulent conduct, any resulting contractual payments from AIG-issued credit default swaps could be viewed as ill-gotten gains. In light of the U.S. Treasury and Federal Reserve Bank of New York’s extensive and unprecedented support of the insurance giant and the \$12.9 billion in taxpayer dollars that AIG transferred to Goldman Sachs to settle the bad credit default swaps, it is imperative that the SEC pursue the recovery from Goldman Sachs of any fraudulently obtained AIG payments.

Accordingly, we request that SEC, with all due haste, pursue investigations into the remaining 24 ABACUS transactions for securities fraud, evaluate the extent of any receipt, by Goldman Sachs, of fraudulently-generated AIG-issued credit default swap payments, and vigorously pursue the recovery of such payments on behalf of the U.S. taxpayer. Finally, should this or any subsequent investigation uncover criminal misconduct, we implore you to refer those matters to the Department of Justice for the appropriate prosecution.

Again, we appreciate the enforcement efforts of the SEC, and look forward to monitoring the progression of this landmark case.

Sincerely,

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